

## Message Text

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E.O. 11652:

TAGS: ENRG/IEA  
SUBJECT:IEA: STANDING GROUP ON LONG TERM COOPERATION  
(SLT) MEETING, MAY 14-16.

ACTION ADDRESSEES ARE REQUESTED TO DELIVER A COPY OF THE FOLLOWING CHAIRMAN'S NOTE TO THE SENIOR SLT DELEGATE IN THE HOST GOVERNMENT (AND APPROPRIATE SECRETARIAT OFFICIALS AT THE IEA) AS SOON AS POSSIBLE. THIS DOCUMENT WILL BE THE BASIS FOR DISCUSSION IN THE NEXT MEETING OF THE SLT, TO BE HELD AT THE DEPARTMENT OF STATE IN WASHINGTON. PLEASE ALSO REMIND DELEGATES THAT THE MEETING WILL COMMENCE AT 10:00 AM MAY 14 AND SUGGEST THAT THEY ENTER THE DEPARTMENT VIA THE C STREET ENTRANCE. REQUEST EMBASSIES ALSO CABLE THE NAMES AND TITLES OF DELEGATION MEMBERS BY MAY 10.

TEXT FOLLOWS: "NOTE BY THE CHAIRMAN ON THE ELABORATION OF THE DECISION OF THE GOVERNING BOARD OF MARCH 20, 1975 ON THE ESTABLISHMENT OF LONG-TERM COOPERATION PROGRAM TO REDUCE DEPENDENCE ON IMPORTED OIL.

A. MINIMUM SAFEGUARD PRICE.

1. CONCEPT: AN AGREEMENT TO ENCOURAGE AND SAFEGUARD INVESTMENT IN THE BULK OF CONVENTIONAL ALTERNATIVE SOURCES OF ENERGY THROUGH THE ESTABLISHMENT OF A MINIMUM PRICE BELOW WHICH PARTICIPATING COUNTRIES WILL NOT ALLOW IMPORTED OIL TO BE SOLD WITHIN THEIR DOMESTIC ECONOMIES.

2. DEFINITIONS:

A) IMPORTED OIL - THE SLT EXAMINED THREE ALTERNATIVE DEFINITIONS OF IMPORTED OIL:

1) OIL PRODUCED OUTSIDE THE INDIVIDUAL PARTICIPATING COUNTRY;

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2) OIL PRODUCED OUTSIDE THE IEA AREA; OR

3) OPEC OIL.

ADMINISTRATIVE ENFORCEMENT: ALL THESE DEFINITIONS POSE CERTAIN DIFFICULTIES OF ADMINISTRATION, PARTICULARLY IN VIEW OF EXTENSIVE INTRA-IEA TRADE IN CRUDE OIL AND PETROLEUM PRODUCTS, THE POTENTIAL DIFFICULTY OF VERIFYING THE ORIGIN OF CRUDE FROM WHICH PRODUCTS ARE PRODUCED, THE PRACTICES PREVALENT AT VARIOUS ENTREPOTS OF MIXING PRODUCTS FROM VARIOUS SOURCES, ETC. HOWEVER, IT APPEARS THAT DEFINITION (1) WOULD BE RELATIVELY EASIEST TO ADMINISTER WHILE DEFINITION (3) WOULD BE MOST DIFFICULT.

COMPATIBILITY WITH INTERNATIONAL TRADE OBLIGATIONS: ALL THREE DEFINITIONS POSE POTENTIAL PROBLEMS UNDER THE GATT AND OTHER INTERNATIONAL TRADE OBLIGATIONS SUCH AS GSP, ETC. THE PROBLEMS ARE ROUGHLY OF TWO CATEGORIES: (1) POSSIBLE CONFLICT BETWEEN THE MINIMUM SAFEGUARD PRICE PROGRAM AND SPECIFIC COMMITMENTS SUCH AS GATT BINDINGS, ETC. MADE BY IEA COUNTRIES; AND (2) POSSIBLE CONFLICT BETWEEN OBLIGATIONS BEING UNDERTAKEN UNDER THE COMMON SAFEGUARD PRICE AND GENERAL GATT OBLIGATIONS, E.G. NON-DISCRIMINATORY TREATMENT, ETC. THE NATURE AND MAGNITUDE OF THESE GATT PROBLEMS DEPENDS TO A LARGE EXTENT ON SUCH QUESTIONS AS THE DEFINITION OF IMPORTED. THE FIRST CATEGORY OF THESE PROBLEMS APPEARS TO ARISE UNDER ANY OF THE DEFINITIONS OF IMPORTED OIL BEING CONSIDERED. PROBLEMS UNDER THE SECOND CATEGORY APPEAR TO BECOME MORE SERIOUS AS THE DEFINITION BECOMES NARROWER.

IF POSSIBLE, THE MINIMUM SAFEGUARD PRICE AGREEMENT SHOULD BE FORMULATED TO ASSURE THAT IEA COUNTRIES ARE NOT CONFRONTED WITH CONCRETE PROBLEMS UNDER THE GATT WHICH MIGHT REQUIRE COMPENSATION UNTIL AND UNLESS THE SAFEGUARD SYSTEM IS ACTUALLY ACTIVATED. THIS OBJECTIVE SHOULD BE BALANCED AGAINST THE NEED TO PROVIDE INVESTORS IN THE IEA WITH A SUBSTANTIAL DEGREE OF SECURITY REGARDING FUTURE COMPETITION FROM IMPORTED OIL.

AT THIS POINT IN THE SLT'S WORK, IT APPEARS ADVISABLE TO  
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DECIDE FIRST ON THE MAJOR FEATURES OF THE OVERALL MINIMUM SAFEGUARD PRICE PROGRAM AND THEN TO DECIDE HOW BEST TO HANDLE THE GATT IMPLICATIONS. IN THE MEANTIME, HOWEVER, DELEGATIONS SHOULD PROVIDE THE SECRETARIAT WITH A COMPREHENSIVE LISTING OF THE SPECIFIC CONCESSIONS, BINDINGS, ETC. OF THEIR GOVERNMENTS WHICH MIGHT BE AFFECTED BY THE MINIMUM SAFEGUARD PRICE AGREEMENT. THESE LISTINGS SHOULD BE GIVEN TO THE SECRETARIAT DURING THE MAY 14-16 MEETING.

PREFERENCES FOR IEA AND/OR NON-OPEC OIL AS INCENTIVES TO PRODUCTION: SOME DELEGATIONS STRESSED THAT, IN VIEW OF THE IEA OBJECTIVE OF REDUCED DEPENDENCE FOR THE GROUP, THE DEFINITION OF IMPORTED OIL SHOULD EXCLUDE OIL PRODUCED WITHIN THE IEA AREA. THIS WOULD CREATE A POTENTIAL SITUATION IN WHICH, THE WORLD PRICE HAVING FALLEN BELOW THE LEVEL OF THE SAFEGUARD PRICE, OIL PRODUCED IN ONE IEA COUNTRY COULD THUS BE SOLD IN OTHER IEA COUNTRIES WITHOUT BEING SUBJECT TO THE SAFEGUARD PRICE. IN THIS WAY, AN INCENTIVE WOULD BE PROVIDED TO THE DEVELOPMENT AND PRODUCTION OF IEA OIL.

THREE QUESTIONS HAVE BEEN RAISED IN THIS CONNECTION:

(1) THE DEGREE TO WHICH SUCH DE FACTO PREFERENTIAL TREATMENT FOR IEA OIL COULD AFFECT COMPETITION AMONG IEA COUNTRIES; (2) WHETHER THE PROVISION OF SUCH DE FACTO PREFERENTIAL TREATMENT WOULD HAVE TO BE ACCOMPANIED BY UNDERTAKINGS AS TO NON-DISCRIMINATORY ACCESS AND PRICING; AND (3) THE DEGREE TO WHICH SUCH TREATMENT WOULD IN FACT RESULT IN INCREASED PRODUCTION WITHIN THE IEA.

A QUESTION RELATED TO THAT OF DEFINITION IS THE EXTENT TO WHICH CERTAIN CATEGORIES OF OIL MAY BE EXCEPTED FROM THE MINIMUM SAFEGUARD PRICE. FOR EXAMPLE, IF IMPORTED OIL IS DEFINED AS OIL PRODUCED OUTSIDE THE IEA AREA, AN EXCEPTION COULD BE FORMULATED TO COVER OIL PRODUCED OUTSIDE THE IEA AS A RESULT OF INVESTMENT BY AN IEA MEMBER. IF SUCH EXCLUSION IS FOUND TO BE JUSTIFIED IN THE LIGHT OF THE MARCH 20 GOVERNING BOARD DECISION AND THE GROUP'S OBJECTIVE OF INCREASING THE SUPPLY OF ENERGY AVAILABLE IN THE WORLD, THE EXCLUSION COULD EITHER BE PROVIDED EX ANTE IN A SPECIFIC CLAUSE OF THE AGREEMENT OR BY THE GOVERNING LIMITED OFFICIAL USE  
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BOARD ON A CASE-BY-CASE BASIS.

B) OIL: TWO PRINCIPAL QUESTIONS MUST BE RESOLVED IN CONNECTION WITH THE DEFINITION OF "OIL" FOR PURPOSES OF THE AGREEMENT:

- (1) TREATMENT OF PRODUCT IMPORTS; AND
- (2) VALUATION OF DIFFERENT TYPES OF CRUDE.

ON THE FIRST QUESTION, THERE IS GENERAL AGREEMENT THAT THE DEFINITION OF IMPORTED OIL MUST INCLUDE PRODUCTS (WHETHER REFINED OUTSIDE THE IEA OR REFINED WITHIN THE IEA FROM NON-IEA CRUDE). TO EXCLUDE PRODUCTS FROM THE DEFINITION WOULD SERIOUSLY WEAKEN, PARTICULARLY OVER THE MEDIUM-TERM, THE DEGREE OF PROTECTION OFFERED DOMESTIC INVESTORS AND WOULD BE AN INCENTIVE TO THE MOVEMENT BY PRODUCER COUNTRIES INTO DOWNSTREAM OPERATIONS.

A RELATED QUESTION IS THAT OF WHICH IEA COUNTRY WOULD CAPTURE THE ECONOMIC RENTS (LEVIES, TARIFFS, ETC.) ON PRODUCTS TRADED WITHIN THE IEA AREA IF THE WORLD PRICE FALLS BELOW THE LEVEL OF THE MINIMUM SAFEGUARD PRICE. THERE WOULD SEEM TO BE A STRONG ARGUMENT IN TERMS OF EQUITY FOR A SYSTEM IN WHICH THESE RENTS ARE COLLECTED BY THE COUNTRY OF FINAL CONSUMPTION. THE ADMINISTRATION OF SUCH A SYSTEM MAY POSE COMPLICATED PROBLEMS OF TRACING THE ORIGIN AND DISPOSITION OF PRODUCTS. BUT SOME OF THESE PROBLEMS COULD BE ADDRESSED IN A TECHNICAL LEVEL WORKING GROUP ONCE THE OVERALL AGREEMENT IS ESTABLISHED. IN ADDITION, SOME OF THE WORK OF THE SEQ IN TERMS OF THE EMERGENCY ARRANGEMENT MAY BE RELEVANT TO THESE ASPECTS

OF THE MINIMUM SAFEGUARD PRICE.

THE POSSIBLE ADMINISTRATIVE PROBLEMS POSED BY VARIATION IN VALUES AMONG THE DIFFERENT TYPES OF CRUDE OIL COULD BE MET EITHER BY ASSIGNING A SEPARATE SAFEGUARD PRICE FOR EACH CRUDE TYPE OR BY IDENTIFYING ONE STANDARD MARKER CRUDE. INITIAL DISCUSSION REVEALED A PREFERENCE FOR THE LATTER SOLUTION IN WHICH THE LEVEL OF SAFEGUARD PRICE WOULD BE SPECIFIED IN TERMS OF THE MARKER CRUDE AND OTHER PETROLEUM AND PRODUCTS WOULD BE PRICED ACCORDING TO AN AGREED SCHEDULE OF COMPARISON.

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### 3. LEVEL OF MINIMUM SAFEGUARD PRICE:

A) LEVEL: THE DECISION ON THE ACTUAL LEVEL WILL BE TAKEN BY THE GOVERNING BOARD. THE SLT MUST PROVIDE AN ANALYTICAL FRAMEWORK FOR THIS DECISION. THE WORK OF THE AD HOC GROUP IS CRITICAL IN THIS REGARD SINCE IT IS TO PROVIDE ESTIMATES OF THE VARIOUS AMOUNTS OF ENERGY AVAILABLE AT DIFFERENT LEVELS OF COST. (A FURTHER REPORT ON THIS SUBJECT BY THE CHAIRMAN OF THE AD HOC GROUP WILL BE AVAILABLE AT THE MAY 10 MEETING.

THERE WAS SOME DISCUSSION AT THE LAST SLT MEETING AS TO THE DEGREE OF FLEXIBILITY WHICH MIGHT BE PRACTICAL WITHIN THE SYSTEM. THE CHAIRMAN INDICATED THAT THE MARCH 20 GOVERNING BOARD DISCUSSION WOULD SEEM TO ALLOW FOR CONSIDERABLE FLEXIBILITY IN TERMS OF THE MECHANISMS TO BE USED FOR MAINTAINING A MINIMUM SAFEGUARD PRICE AND IN TERMS OF THE ABILITY OF AN INDIVIDUAL PARTICIPATING COUNTRY TO PROVIDE INCENTIVES TO INVESTMENT OVER AND ABOVE THE MINIMUM SAFEGUARD PRICE. HOWEVER, THE SAFEGUARD PRICE ESTABLISHED IN THE IEA AGREEMENT WOULD BE A COMMON MINIMUM WHOSE LEVEL WILL BE SET TO MEET THE VARIOUS CONDITIONS SPECIFIED IN THE MARCH 20 DECISION. IN ORDER TO MEET THE OBJECTIVE OF CREATING A CLIMATE TO ENCOURAGE INVESTMENT, THIS LEVEL SHOULD BE ESTABLISHED AT A RELATIVELY EARLY DATE. THE ESTABLISHMENT OF A LEVEL AT WHICH IEA INVESTMENTS WOULD BE SAFEGUARDED AGAINST IMPORTED OIL COULD NOT BE DEFERRED UNTIL WORLD PRICES ACTUALLY BEGAN TO DECLINE SUBSTANTIALLY. WHILE THERE APPEARED TO BE GENERAL ACCEPTANCE OF THIS INTERPRETATION, SOME DELEGATIONS INDICATED THEY PREFER A "FLEXIBLE" RATHER THAN A RIGID SYSTEM.

B) MAINTENANCE OF VALUE: THERE IS GENERAL AGREEMENT THAT THE AGREEMENT MUST INCLUDE SOME PROVISION TO ENSURE THAT THE LEVEL OF EFFECTIVE PROTECTION OFFERED BY THE MINIMUM SAFEGUARD PRICE IS NOT ERODED OVER TIME BY INCREASES IN THE COSTS OF MATERIAL, MANPOWER, AND OTHER

FACTORS OF PRODUCTION OF THE BULK OF CONVENTION ENERGY  
SOURCES. IF SUCH PROVISION WERE NOT MADE, THE IMMEDIATE  
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AND FUTURE USEFULNESS OF THE AGREEMENT AS AN INCENTIVE  
TO INVESTMENT COULD BE SERIOUSLY WEAKENED.

HOWEVER, THERE WAS ALSO STRONG CONSENSUS THAT THIS PRO-  
VISION FOR ASSURING THE REAL VALUE OF PROTECTION SHOULD  
NOT BE OVERLY AUTOMATIC OR MECHANISTIC. THE IEA SHOULD  
ALSO AVOID ANY FORMULATION WHICH MIGHT ESTABLISH UNDESIR-  
ABLE PRECEDENTS.

THERE WAS GENERAL AGREEMENT THAT OF THE THREE ALTERNATIVES  
LISTED IN THE CHAIRMAN'S NOTE OF APRIL 25, THE THIRD  
(AGREED PROCESS NOR PERIODIC REVIEW) WAS THE PREFERRED  
OPTION. SEVERAL DELEGATIONS SUGGESTED THAT THIS PERIODIC  
REVIEW SHOULD TAKE PLACE AGAINST PRE-AGREED CRITERIA IN  
ORDER TO GIVE SOMEWHAT GREATER ASSURANCE TO INVESTORS.  
IT WAS GENERALLY AGREED THAT THIS PROVISION IN THE AGREE-  
MENT SHOULD BE DRAFTED TO INSURE THAT THE WHOLE CONCEPT  
OF THE MINIMUM SAFEGUARD PRICE IS NOT SUBJECT TO PERIODIC  
REVIEW; RATHER THE REVIEW SHOULD FOCUS EXCLUSIVELY ON THE  
MAINTENANCE OF VALUE ISSUE.

THE US DELEGATION UNDERTOOK TO PROVIDE A WORKING PAPER FOR  
THE MAY 14-16 SLT MEETING EXAMINING POSSIBLE CRITERIA FOR  
A PERIODIC REVIEW. OTHER DELEGATIONS MAY ALSO PROVIDE  
WORKING PAPERS ON THE SUBJECT.

C) DEFINITION OF PRICE: TWO RELATED ISSUES MUST BE  
RESOLVED IN TERMS OF A DEFINITION OF PRICE.

(1) FOB OR CIF: THREE ALTERNATIVES FOR A PRICE  
BASE WERE DISCUSSED: A COMMON CIF PRICE, A COMMON FOB  
PRICE PLUS AVERAGE TRANSPORTATION AND OTHER COSTS, AND  
SIMPLY A COMMON FOB PRICE. SEVERAL DELEGATIONS EXPRESSED  
CONCERN THAT THE ADOPTION OF A CIF BASE COULD INTRODUCE  
AN ARTIFICIAL CHANGE IN TRADE PATTERNS, COSTS, AND THE  
RELATIVE COMPETITIVE POSITION AMONG IEA COUNTRIES. IT WAS  
ALSO FELT THAT A CIF SYSTEM COULD BE MORE COMPLICATED. ON  
THE OTHER HAND, ONE DELEGATION POINTED OUT THAT CIF IS THE  
EFFECTIVE IMPORTED PRICE -- THE FACTOR ON WHICH WE SEEK TO  
PROVIDE ASSURANCE TO IEA INVESTORS. IN CONCLUSION THERE  
APPEARED TO BE CONSIDERABLE SUPPORT FOR THE USE OF A SIMPLE  
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FOB BASE ON THE GROUNDS THAT IT WOULD BE THE EASIEST FROM

AN ADMINISTRATIVE POINT OF VIEW AND WOULD INVOLVE THE LEAST DISTORTION OF EXISTING PATTERNS OF COMPETITION WITHIN THE IEA.

(2) CURRENCY DENOMINATION: THE SECRETARIAT IS PREPARING A PAPER ON THE QUESTION OF HOW THE SAFEGUARD PRICE SHOULD BE DENOMINATED, E.G. CN TE MS OF A SINGLE GIVEN CURRENCY OR SOME AGREED MIX OF CURRENCIES OR OTHER INTERNATIONAL MONETARY UNIT.

4. DURATION: THE SUBSTANTIAL LEAD TIMES REQUIRED FOR THE DEVELOPMENT OF MANY CONVENTIONAL ENERGY PROJECTS WOULD SEEM TO REQUIRE AN AGREEMENT OF RELATIVELY LONG DURATION. ONE POSSIBLE FORMULATION WOULD ESTABLISH A MINIMUM SAFEGUARD PRICE FOR THE SAME PERIOD AS THE IEP AGREEMENT -- 10 YEARS. WE MUST DECIDE WHETHER IF THIS WERE ADOPTED, THERE SHOULD BE PROVISION FOR REVIEW, E.G. AFTER FIVE YEARS, AND/OR PROVISION FOR RENEWAL BEYOND TEN YEARS UNDER CERTAIN CONDITIONS.

5. MECHANISMS: THERE APPEARS TO BE GENERAL AGREEMENT THAT, ON THE BASIS OF THE MARCH 20 GOVERNING BOARD DECISION, THE COMMITMENT UNDERTAKEN BY PARTICIPATING COUNTRIES UNDER THE COMMON SAFEGUARD PRICE AGREEMENT SHOULD BE "NOT TO ALLOW IMPORTED OIL TO BE SOLD DOMESTICALLY BELOW A COMMON MINIMUM PRICE." GOVERNMENTS WOULD BE LEFT FREE TO IMPOSE MEASURES OF THEIR OWN CHOICE TO UPHOLD THIS COMMITMENT, ALTHOUGH THEY MIGHT BE REQUIRED TO CHOOSE FROM AN AGREED LIST OF SUCH MECHANISMS. THOSE DELEGATIONS FAVORING A "FLEXIBLE" APPROACH MAINTAIN THAT, SINCE IT APPEARS UNLIKELY THAT THE WORLD PRICE OF OIL WILL FALL BELOW THE LEVEL OF THE SAFEGUARD PRICE IN THE NEAR FUTURE, THERE MAY NOT BE NEED FOR GOVERNMENTS TO HAVE SUCH MECHANISMS ACTUALLY IN PLACE IMMEDIATELY. ON THE OTHER HAND, THIS PROBABLY CANNOT BE SIMPLY A BEST EFFORTS UNDERTAKING. GOVERNMENTS WILL HAVE TO SATISFY BOTH IEA INVESTORS AND OTHER IEA GOVERNMENTS THAT THEY HAVE THE LEGAL AND OTHER AUTHORITIES NEEDED TO MEET THEIR COMMITMENT.

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(A) TYPES OF MECHANISMS: SEVERAL TYPES OF MECHANISMS HAVE BEEN ANALYZE IN A PRELIMINARY FASHION:

- TARIFFS (FIXED AND STANDING)
- VARIABLE LEVIES
- QR'S (POSSIBLY INCLUDING AUCTION AND/OR LICENSING ARRANGEMENTS)
- STATE TRADING
- CONSUMPTION TAXES

THESE MECHANISMS DIFFER SOMEWHAT AS TO ADMINISTRATIVE SIMPLICITY AND THE DEGREE OF PRECISION WHICH THEY OFFER. HOWEVER, NO ONE OF THE MECHANISMS APPEARS TO OFFER ANY MAJOR ADVANTAGE OVER THE OTHERS IN TERMS OF COMPATIBILITY WITH THE GATT.

WITH REGARD TO THE DEGREE PRECISION OFFERED BY VARIOUS MECHANISMS, SOME DELEGATIONS CAUTIONED AGAINST TRYING TO MAKE THE SYSTEM TOO PRECISE OR RIGID. THE COMMITMENT UNDER THE AGREEMENT WOULD BE NOT TO ALLOW IMPORTED OIL TO BE SOLD DOMESTICALLY "BELOW" A MINIMUM LEVEL. EACH COUNTRY WOULD HAVE TO HAVE THE CAPABILITY TO MEET THIS COMMITMENT. IF THE ACTUAL MECHANISM SELECTED WAS NOT SUFFICIENTLY PRECISE OR FLEXIBLE TO PERMIT PROMPT ADJUSTMENT SO THAT THE DOMESTIC PRICE WAS NOT SOMETIMES "ABOVE" THE MINIMUM LEVEL, OR IF A COUNTRY DELIBERATELY CHOOSES TO KEEP PRICES ABOVE THE MINIMUM LEVEL, THAT WOULD BE ESSENTIALLY A MATTER FOR NATIONAL DECISION.

VARIOUS ISSUES SHOULD BE ADDRESSED WITH REGARD TO THE POSSIBLE USE OF A DOMESTIC CONSUMPTION TAX. FIRST, IT WOULD CLEARLY BE VERY DIFFICULT TO APPLY ANY SUCH TAX ONLY TO IMPORTED OIL. COUNTRIES EMPLOYING THIS MECHANISM WOULD PROBABLY HAVE TO APPLY IT TO ALL OIL, WHETHER DOMESTICALLY PRODUCED OR IMPORTED. THIS WOULD NOT AFFORD THE DESIRED PROTECTION FOR DOMESTIC INVESTMENT AGAINST THE THREAT OF DOWNWARD PRICE RISK FROM IMPORTED OIL.

SECOND, THE SLT SHOULD EXPLORE THE NEED TO ENSURE THAT ANY SUCH TAX WOULD BE DISCRETE AND EASILY IDENTIFIABLE AS A MECHANISM EMPLOYED TO MEET THE SAFEGUARD PRICE COMMITMENT.

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IN OTHER WORDS, TO WHAT EXTENT WOULD THE OBJECTIVES OF THE PROGRAM BE PREJUDICED IF COUNTRIES WERE PERMITTED TO APPLY

NORMAL REVENUE MEASURES AGAINST THIS SAFEGUARD PRICE COMMITMENT? AND FINALLY, TO WHAT EXTENT SHOULD COUNTRIES CHOOSING SUCH A TAX AS A SAFEGUARD PRICE MECHANISM BE REQUIRED TO ASSURE THAT IT WOULD BE APPLIED EVENLY ON ALL PRODUCTS.

(B) REVIEW PROCEDURES: A POSSIBLE NEED CAN BE FORESEEN FOR TWO TYPES OF REVIEW:

(1) PERIODIC REVIEW OF THE ADMINISTRATIVE, LEGAL, ETC. ABILITY OF GOVERNMENTS TO MEET THEIR COMMITMENTS UNDER THE AGREEMENT. IS THERE NEED FOR SUCH REVIEW, WHICH WOULD IMPLY THAT GOVERNMENTS MUST HAVE MECHANISMS PRE-POSITIONED IN ADVANCE OF ANY DECLINE IN WORLD PRICES



BELOW THE LEVEL OF THE SAFEGUARD PRICE, OR IS IT SUFFICIENT THAT GOVERNMENTS FORMALLY UNDERTAKE TO HAVE SUCH MECHANISMS AVAILABLE TO MEET THEIR COMMITMENT IF AND WHEN THE WORLD PRICE FALLS? THIS QUESTION OF COURSE RELATES TO THE DEGREE OF PRECISION WHICH SHOULD BE PROVIDED IN THE BASIC AGREEMENT. THERE ARE OF COURSE STRONG ARGUMENTS FOR AVOIDING UNNECESSARY PRECISION AND COMPLEXITY. BUT THIS MUST BE BALANCED AGAINST THE NEED TO ASSURE THAT BOTH INVESTORS AND OTHER GOVERNMENTS THAT EACH COUNTRY HAS THE CAPABILITY TO MEET ITS COMMITMENT.

(2) REVIEW OF MECHANISMS, DOMESTIC SELLING PRICES, ETC. ONCE WORLD PRICES HAVE FALLEN BELOW THE LEVEL OF THE SAFEGUARD PRICE. A PRELIMINARY ANALYSIS WOULD SEEM TO POINT TO THE NEED TO PROVIDE FOR A PROCESS OF GROUP REVIEW AT THIS STAGE.

#### B. PROJECT-BY-PROJECT COOPERATION

1. CONCEPT: CERTAIN ASPECTS OF THE FORM AND NATURE OF IEA COOPERATION IN THIS AREA APPEAR GENERALLY AGREED:

-- THERE IS A GENERAL NEED FOR BALANCE BETWEEN IEA COOPERATION IN THIS AREA LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AND THAT ENVISIONED UNDER THE MINIMUM SAFEGUARD PRICE;

-- PROJECT-BY-PROJECT COOPERATION SHOULD BE FLEXIBLE BOTH IN TERMS OF THE TYPES OF PROJECTS UNDERTAKEN (I.E. CAPABLE OF EXPANSION AND CONTRACTION IN RESPONSE TO SHIFTS IN COST AND CHARGES IN LONG-TERM ENERGY OUTLOOK), AND THE MANNER IN WHICH IEA GOVERNMENTS CAN PARTICIPATE; AND

-- THE FRAMEWORK FOR PROJECT-BY-PROJECT COOPERATION SHOULD NOT IMPOSE ANY OPEN-ENDED FINANCIAL OBLIGATIONS ON GOVERNMENTS;

-- PROJECTS WHICH MAY POTENTIALLY PRODUCE ENERGY BELOW THE MINIMO SEFEGUARD PRICE ARE NOT EXCLUDED.

ALL THREE OF THE MODELS NOW UNDER CONSIDERATION APPEAR TO RECOGNIZE THESE CRITERIA. ADOPTION OF ANY ONE OF THE THREE WOULD NOT APPEAR TO EXCLUDE ADOPTION OF ONE OR BOTH OF THE OTHER TWO OR OTHER MODELS EITHER NOW OR IN THE FUTURE.

2. EACH OF THE THREE DELEGATIONS WHICH HAVE MADE SPECIFIC PROPOSALS HAS AGREED TO PROVIDE FURTHER ELABORATION FOR THE MAY 14-16 MEETING. AMONG THE ISSUES WHICH SHOULD BE EXAMINED FURTHER AT THIS NEXT MEETING ARE:

-- THE DEGREE TO WHICH GOVERNMENTS WILL BE PREPARED TO TAKE ON EVEN A CONTINGENT LIABILITY FOR PROJECTS IN WHICH THEY OR THEIR NATIONALS ARE NOT DIRECT PARTICIPANTS;

-- THE DEGREE TO WHICH SPECIFIC FACILITIES FOR COOPERATION CAN OR SHOULD BE DEvised BEFORE ACTUAL PROJECTS ARE PRESENTED;

-- WHETHER THE IEA AS AN INSTITUTION SHOULD LIMITED OFFICIAL USE  
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TAKE AN ACTIVE ROLE IN IDENTIFYING PROJECTS AND IF SO, HOW; AND

-- WHETHER IEA COOPERATIVE ENCOURAGEMENT TO INVESTMENT IN THIS AREA SHOULD BE EXTENDED ONLY TO COOPERATIVE OR JOINT PROJECTS OR SHOULD BE MADE AVAILABLE TO NATIONAL PROJECTS AS WELL.

3. THERE IS SOME EVIDENCE THAT THE POTENTIAL AVAILABILITY OF FINANCING IS ONLY ONE OF A SERIES OF ACTUAL AND POTENTIAL CONSTRAINTS IN THE INITIATION OF SPECIFIC ENERGY PROJECTS. THE SLT SHOULD EXAMINE THE EXTENT TO WHICH NON-FINANCIAL CONSTRAINTS SHOULD BE ADDRESSED BY THE IEA AND, IF SO, HOW.

C. R & D COOPERATION: THE R 7 D SUB-GROUP IS NOW COMPLETING ITS WORK ON A DRAFT SET OF PRINCIPLES TO GUIDE IEA COOPERATION IN THIS AREA. AS SOON AS THIS REPORT IS AVAILABLE, WE WILL HAVE TO DETERMINE HOW THIS SHOULD BE INCORPORATED IN THE OVERALL AGREEMENT ON WHICH WE ARE WORKING.

D. CONSERVATION COOPERATION: THE MARCH 20 GOVERNING BOARD DECCS ON REQUIRES THAT THE PROPOSED COOPERATIVE PROGRAM ELABORATED BY THE SLT SHOULD ALSO COVER PERTINENT ASPECTS OF THE BOARD'S DECISION OF FEBRUARY 6 ON CONSERVATION. THE CHAIRMAN WILL PREPARE A WORKING PAPER FOR THE MAY 14-16 MEETING OUTLINING WAYS IN WHICH THIS ASPECT OF THE MARCH 20 DECISION WOULD BE IMPLEMENTED.

E. REVIEW OF NATIONAL PROGRAMS: AT THE APRIL 28 AND 30 MEETINGS, THE SLT APPROVED THE PROCEDURES FOR REVIEW OF

NATIONAL PROGRAMS PROPOSED BY THE AD HOC GROUP. IT ALSO APPROVED, ON A PROVISIONAL BASIS, A SET OF COMMON CRITERIA FOR USE IN THESE REVIEWS. MODIFICATION OF OR ADDITIONS TO THESE CRITERIA MAY BE NECESSARY AT A LATER STAGE, DEPENDING UPON THE EVOLUTION OF OTHER ELEMENTS OF THE OVERALL PROGRAM.

THE ONLY ISSUE REMAINING, AT THIS STAGE, IN CONNECTION  
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WITH THIS ELEMENT OF THE COOPERATIVE PROGRAM IS HOW AND WHEN THE REVIEW OF NATIONAL PROGRAMS OF ACCELERATED DEVELOPMENT SHOULD BE MELDED WITH THE REVIEW OF NATIONAL CONSERVATION PROGRAMS. END TEXT. KISSINGER

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## Message Attributes

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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 APR 2003 by ElyME>; APPROVED <21 MAY 2003 by MorefiRH>  
**Review Markings:**

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EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
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BONN  
BRUSSELS  
COPENHAGEN  
DUBLIN

LONDON  
LUXEMBOURG  
MADRID  
OTTAWA  
ROME  
STOCKHOLM  
THE HAGUE  
TOKYO  
VIENNA  
OSLO  
WELLINGTON  
OECD PARIS INFO PARIS  
EC BRUSSELS  
LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE  
**Type:** TE

**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006